

GUIDING PRINCIPLES

- Sandy City exists only to serve the needs of its citizens. Since these needs are continuing and changing, the City should consistently receive citizen feedback based on both long-term and current needs.
- Sandy City should strive for economy, efficiency, and effectiveness in providing basic services. Thus, these services should not cost more than similar services provided by private industry.
- Sandy City should strive for generational fairness. Thus, each generation of taxpayers should pay its own fair share of the long-range cost of these City services.
- Sandy City should finance services rendered to the general public; such as police, fire, streets, and parks, from revenues imposed on the general public, such as property and sales taxes. Special services rendered to specific groups of citizens should be financed by user fees, impact fees, license and permit fees, or special assessments.
- Sandy City should balance all budgets annually, in accordance with the requirements of Utah Law.
- Sandy City should allow for a reasonable surplus (fund balance) to accumulate for the following purposes:
 - To provide sufficient working capital.
 - To provide a cushion to absorb emergencies such as floods, earthquakes, etc.
 - To provide for unavoidable shortfalls in revenues.

DEBT POLICIES

- Sandy City should combine pay-as-you-go strategy with long-term financing to keep the debt burden low.
- Sandy City should seek to maintain or improve the city bond rating, currently AAa@.
- Sandy City should seek the most practical and cost efficient financing available.

Additional information on the City's debt can be found on page 191.

REVENUE AND TAXATION

Sandy City is funded through two categories of revenue: taxes and fees. Tax revenue is primarily used to pay for services provided to the public in general such as police, fire, streets and parks. The City also provides services that benefit specific groups of citizens for which a specific fee is charged which is intended to pay for all or part of the costs incurred to provide that service. The City follows the following revenue policies:

REVENUE POLICIES

- Sandy City should estimate revenues conservatively to avoid unexpected deficits and to provide a funding source for Capital Project needs.
- Sandy City should minimize the use of one-time revenue to fund ongoing services.
- Sandy City should aggressively collect all revenues or taxes due.
- Sandy City should annually review user fees, impact fees, license and permit fees, and special assessments:
 - To determine that the full long-term service costs are not being subsidized by general revenues or passed on to future generations of taxpayers.
 - To determine the subsidy level of some fees.
 - To consider new fees.
- Sandy City should seek to maintain a stable tax rate. Generally, taxes should not be increased unless:
 - Inflation has clearly forced operating costs upward faster than tax growth.
 - New services are instituted to meet citizens' needs.

REVENUE ANALYSIS

User Fees - User fee revenue will be discussed in the section corresponding to the department that provides the service funded by the fee. During the council budget hearings, an analysis of user fees was discussed and decisions made based on the proportion of costs that should be covered by the user fees compared to the amount subsidized by general taxes and revenue. Factors considered in the analysis include:

- How the fees compare with those charged by other cities,
- Whether the service benefits the general public versus an individual user, and
- Whether the same service can be offered privately at a lower cost.

General Taxes & Revenue - The remainder of this section will provide information on the major tax revenue sources used to fund the City's general government services. Each source will have information on:

- How the tax is calculated,
- Significant trends,
- Underlying assumptions for the revenue estimates, and
- A look at how Sandy's taxes compare with similar jurisdictions.

SALES TAX

Sales tax is Sandy City's largest revenue source consisting of 40% of general fund revenue. State Law authorizes cities to receive sales tax revenue based on the process described in the chart below.

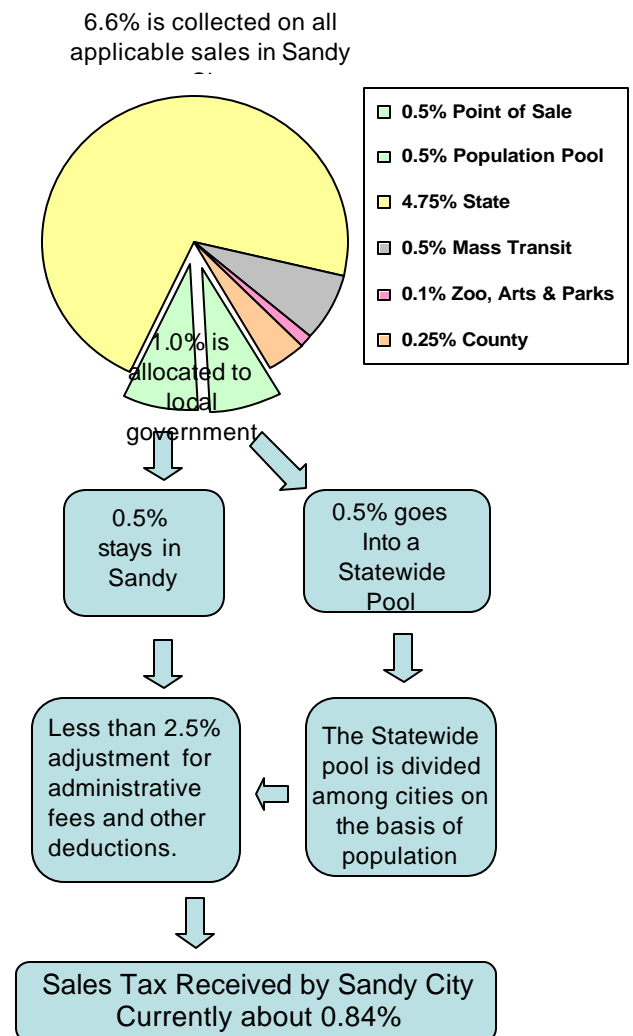
Sales tax revenue is forecasted by the Finance Department using a qualitative method. Trends in each of the relevant factors are analyzed:

State Law – No changes in the rates specified in state law are anticipated.

Population Data – Changes in population data can have a significant impact on sales tax revenue but the estimates for FY 2005 assume no change in the population numbers.

Statewide Sales – With half of the sales tax revenue coming from the statewide pool, the amount of statewide sales is a major factor in the estimate. The rate of growth has been in decline in recent years with the 12-month moving average actually turning negative for much of 2003. Early signs of growth were evident in early 2004. The Governor's Council of Economic Advisors predicts a 4.2% growth in retail sales in Utah while the chief economist for Wells Fargo Bank projects growth of 3.0%. The Sandy City budgeted forecast assumes a conservative 2.5%.

Sandy City Sales – With the other half of sales tax revenue deriving directly from sales made in Sandy, it is important to project separately the growth in retail sales made in Sandy. Sandy sales have generally grown at a faster rate than sales statewide due to the development of a new commercial center in the South Towne area. With few new businesses being added in the past year, the growth in Sandy sales has been more in line with statewide sales. The sales tax forecast is adjusted for any anticipated major new openings or closing but nothing significant is anticipated for FY 2005. The forecasted growth in Sandy sales is also 2.5%.



PROPERTY TAX

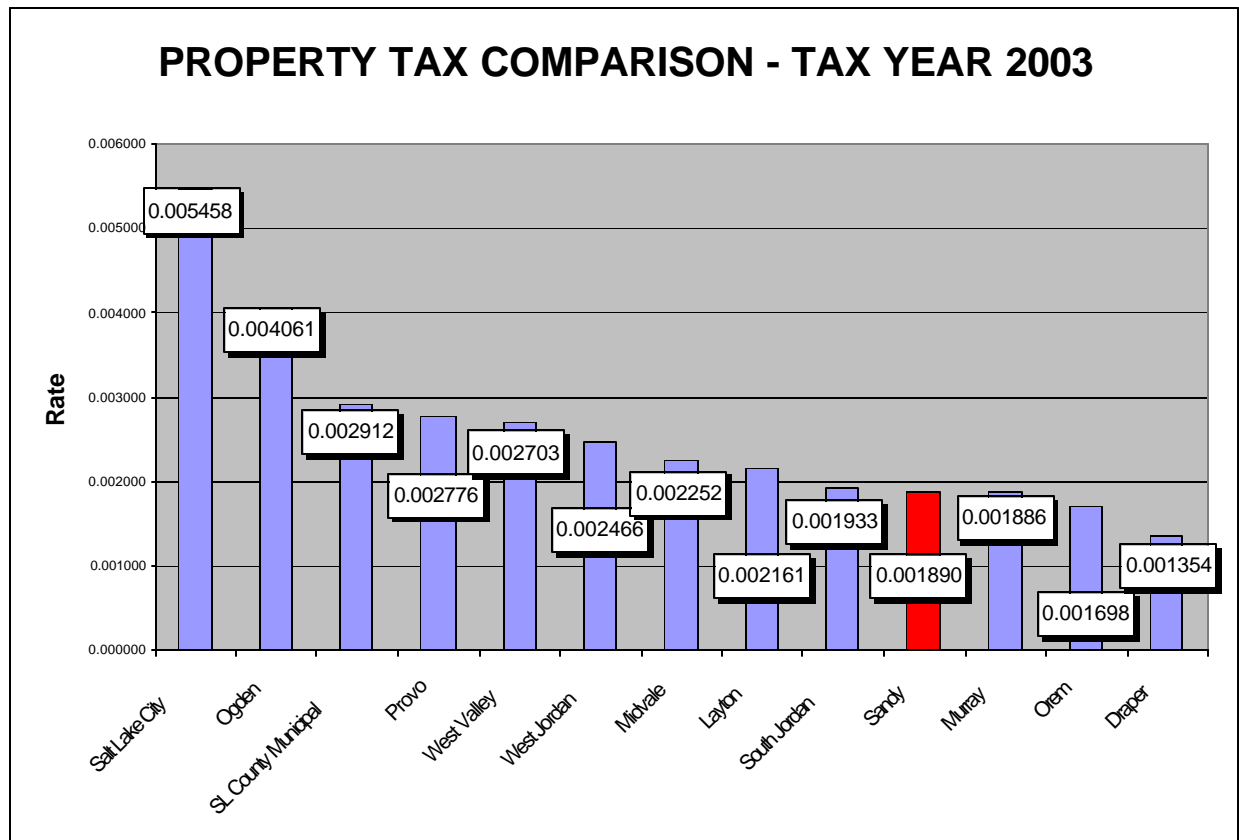
Property tax is Sandy City's second largest source of tax revenue accounting for 19% of general fund revenue. A five-year history of the City's tax rates and the tax paid on a \$100,000 property can be found on page 227.

Truth in Taxation - In order to understand property tax in Utah it is necessary to understand a section of Utah Law known as "Truth in Taxation". The county is responsible for administering property taxes and each

June they submit to the cities a certified tax rate that would generate the same amount of revenue as the previous year plus any new growth. The certified tax rate does not provide for additional tax revenue due to increased valuation of existing property. If the City chooses to adopt a tax rate higher than the certified rate, state law has very specific requirements for newspaper advertisements and public hearings from which the name “Truth in Taxation” is derived.

Revenue Projections - Because the County does not provide certified tax rates until June, the Mayor’s recommended budget includes a projection made by the Finance Department. The final budget must be adjusted so that the County’s property tax number is used. The relevant factors in the preliminary property tax forecast include the tax rate and new growth.

Property Tax Rate – Sandy City’s property tax rate is modest when compared to its neighboring cities and similar sized cities in Utah as illustrated in the chart below. The FY 2005 budget does not include an increase in the tax rate.



New Growth – New growth is initially estimated using a trend analysis and using a report of new construction generated by the City’s Building Division. Since the growth number used in the final budget must be the County’s, adjustments are made as needed.

FRANCHISE TAX

Franchise Taxes are the third largest source of General Fund Revenue generating 12% of general fund revenue. State law authorizes cities to collect up to 6% on utilities operating within City boundaries. The relevant factors in forecasting franchise fee revenue are as follows:

Tax Rate - Sandy City charges a 6% franchise tax to the electric utility, the natural gas utility and for cable television. A new law becomes effective July 1, 2004 for telecommunication utilities. Until now, the franchise fee applied only to telecommunication utilities that ran over land lines. Effective July 1, telecommunication services that run both over land lines and over wireless networks will all pay a 4% franchise tax. The resolution and interlocal agreements necessary to enact this tax were both enacted by the City Council as part of the budget process.

Utility Rate – Changes in utility rates affect the revenue collected by the utility and therefore the amount of tax remitted to the City. Utility rates are regulated by the Public Service Commission. It has not been uncommon to experience rate decreases as well as increases. Any announced rate changes are factored into the revenue projections. The projections assume a 7.7% increase for PacifiCorp that went into effect on April 1, 2004.

Usage – Utility revenue is sensitive to changes in usage. The electric and natural gas utilities can be affected in particular by the weather. During FY 2004, Sandy experienced an unseasonably warm fall that quickly changed to an unusually cold winter. The projections take weather variations into account and assume a normal weather pattern. The size of households also has some affect on utility usage. The average household size in Sandy has decreased in recent years which tends to reduce usage.

MOTOR VEHICLE FEES

Motor vehicle fees account for just over 2% of general fund revenue. The fee is a personal property tax for passenger cars and light trucks. It is a uniform fee based on the age of the vehicle. The fee is applicable to passenger cars, light trucks (including sport utility vehicles) and vans. These fees are due at the time of registration, even on new vehicles and when a vehicle is registered more than once during a year. The fees are:

The fees collected are transmitted to the county where they are distributed to the taxing jurisdictions in proportion with the property tax revenue. As a result, the distribution is affected by changes in tax rates and growth in other jurisdictions. A qualitative method is used to project revenue based on past trends.

Age of Vehicle	Equivalent Tax
Less than 3 years	\$150
3 or more years but less than 6 years	\$110
6 or more years but less than 9 years	\$80
9 or more years but less than 12 years	\$50
12 or more years	\$10

Source: Utah Department of Motor Vehicles Website

BUDGET PROCESS

BUDGET ROLES AND RESPONSIBILITIES

Sandy City Citizens – The citizens’ role is to provide feedback to the elected officials about the level of service they desire and about how satisfied they are with the services provided. They do this by participating in public hearings, contacting City Hall or by responding to the annual citizens’ survey.

The City Council – The Councils role is to provide policy direction to the Mayor, City Administrator, Department Heads, and Budget Committee. They should also facilitate citizen input by holding public hearings on the tentatively adopted budget. They receive a tentative budget from the Mayor on or before the first regularly scheduled meeting in May. They conduct a series of hearings with each department and

BUDGET AMENDMENTS AND MANAGEMENT

Once adopted, the budget can be amended by subsequent City Council action. Reductions in or reallocations of departmental appropriations can be approved by the City Council upon recommendation of the Budget Officer, but increased appropriations require a public hearing prior to amending the budget. Transfers of unexpended appropriations from one expenditure account to another in the same department can be made with the approval of the Budget Officer.

The Finance Department prepares and distributes a monthly budget report by the 10th day of the following month. Recipients of the report include the Mayor, City Council, Chief Administrative Officer and all managers with budget responsibilities. The report mirrors the financial schedules contained in this budget book and includes current month expenditures, year to date expenditures, encumbrances, year to date budget, year to date variances, the annual budget and the remaining budget.

As determined by Utah State law, the level for which expenditures may not legally exceed appropriations is the departmental budget within a given fund. The City Council also requires approval for any expenditure exceeding appropriations at the project level for all capital projects funded with general revenue. All unexpended appropriations lapse at the end of the budget year. However, unexpended Capital Projects Fund appropriations may be reappropriated by a resolution of the City Council without holding public hearings.

BASIS OF BUDGETING & DESCRIPTION OF FUNDS

BASIS OF BUDGETING

Basis of budgeting refers to when revenues or expenditures are recognized in the accounts and reported in the financial statements. Basis of budgeting relates to the timing of the measurements made, regardless of the measurement focus applied.

The budgeting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are budgeted for on a spending or "current financial flow" measurement focus. This means that only current assets and current liabilities are generally recognized. A Current@ for the Balance Sheet (assets/liabilities) measurement means that which will be received or paid within the next year. Non-Governmental Funds (Enterprise and Internal Service Funds) are budgeted for on a cost of services or "economic resources" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Regardless of the measurement focus, depreciation is not budgeted.

All Governmental Fund budgets are based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available and qualify as current assets. Taxes and special assessment are accrued as receivables if they are received within 60 days after the fiscal year end. Principal revenue sources susceptible to accrual include property taxes, sales taxes, franchise taxes, special assessments, and interest on investments. Furthermore, expenditures are recorded when current fund liabilities are incurred (i.e. capital acquisitions, bond issuance cost, etc. are expensed and they are not capitalized and depreciated or amortized over the life of the assets). Exceptions to this general rule include: (1) the long-term portion of accumulated unpaid vacation; and (2) principal and interest on general long-term debt which are recognized when due.

All Enterprise and Internal Service Fund budgets are based on the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred. The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds. Pronouncements of the Financial Accounting Standards Board (FASB) are applied if issued on or before November 30, 1989 and do not conflict with GASB pronouncements.

DESCRIPTION OF FUNDS

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The Storm Water Fund accounts for the City's revenues and capital expenditures associated with drainage for storm water run off.

The Debt Service Funds are used to account for the accumulation of resources for payment of general long-term debt principal and interest and special assessment levies when the City is obligated in some manner for the payment. The City's debt service funds include the General Purposes Debt Service Fund, Auto Mall Special Improvement District Fund, and the Special Improvement Guarantee Fund. Debt incurred by enterprise funds is not accounted for in the debt service funds but internally within the enterprise fund.

The Capital Projects Fund accounts for the resources used to acquire, construct, and improve major capital facilities, other than those financed by proprietary funds. The principal source of funding is contributions from developers restricted for capital construction, operating transfers from the General Fund, grants, and bonding. All funds received for a particular purpose are restricted and used specifically for that purpose.

The City reports the following major proprietary funds:

The Alta Canyon Sports Center Fund accounts for the activities created by the Alta Canyon Recreation Special Service District.

The Water Fund is used to account for the operations of the City's water utility.

The Waste Fund accounts for waste collection services provided by an independent contractor.

The Golf Fund is used to account for the City's golf course.

The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the city on a cost reimbursement basis. The Internal Service Funds include the Fleet Fund, the Information Services Fund, the Risk Management Fund, the Equipment Management Fund, and the Payroll Management Fund.